



Date: July 19, 2011

To: Thomas J. Bonfield, City Manager

Through: Theodore L. Voorhees, Deputy City Manager

From: Donald F. Greeley, Director, Water Management
Vicki Westbrook, Assistant Director, Water Management
Martha Zeigler, Utility Finance Manager, Water Management

Subject: Disconnection/reconnection Fees for Delinquent Sewer Only Accounts;
Minor corrections to Water & Sewer Rate fee schedule for fixed sewer
(sewer-only) customers

Executive Summary

The Department of Water Management has been implementing several strategies over the past several months to strengthen the department's financial practices, focusing initially on billing and collections areas. Staff has worked with the Finance Department to develop a cross-departmental effort to collect past due water and sewer accounts. In addition to enhancing the cut-off policies for both residential and non-residential water and sewer accounts, the departments developed a Memorandum of Understanding (MOU) outlining areas of responsibility for the collection of delinquent accounts. This jointly developed strategy also includes retaining the services of a collection agency to pursue former customers not subject to termination of water service.

Cut-off policies and practices work well for active water and sewer accounts and water-only accounts. Currently there are 901 sewer-only accounts in the City and County. These accounts are billed just as other water and sewer accounts are billed, but because of the difficulty of disconnection, delinquencies for these accounts have not been actively pursued. Now that the Water Management and Finance departments have the MOU and collection agency in place, we are better positioned to aggressively pursue delinquent sewer-only accounts. To accomplish this, Water Management is proposing a two-step process. The first step would be a coordinated effort between Customer Billing Services and General Billing & Collections to send an initial letter demanding payment in full to the City or negotiating alternative payment arrangements within 30 days. This letter would also explain the consequences of noncompliance. All customers not paying by the deadline would receive follow-up contact from the City within the next 30 days.

If the customer does not respond to these efforts with full payment or by setting up a payment plan, Water Management will proceed with the second step to discontinue the sewer service. This practice will be expensive and time consuming, and costs will be passed on to the customer. Because discontinuing sewer service could be a public health issue as well as a minimum housing code violation, Water Management will also involve the Durham County Health Department and appropriate staff from Neighborhood Improvement Services and other City departments in the resolution of these issues.

The department believes these steps are fiscally responsible and will continue to improve the financial position of the water and sewer fund. Staff also believes that once customers understand the significant costs of disconnection and reconnection and realize the City is

serious about taking action, they will pay the delinquent amounts or pursue the opportunity to set up payment plans.

As a separate but related matter, during this year's water and sewer rate setting process, fees for fixed consumption charges for sewer-only customers – both inside and outside City – were not updated using the fiscal year 2012 sewer consumption charges. The proposed ordinance will make the correction to the fee schedule.

Recommendation

The department recommends that City Council adopt:

- An ordinance to amend Section 70-57 (c) of the city code to authorize the City to install a valve and cleanout at the lateral of sewer only customers to enforce payment of delinquent account; and
- An ordinance to impose disconnection and reconnection fees for sewer only customers by adding Part 15-119 to the city's fee; and
- An ordinance to change rates for water and sewer services, correcting Part 15-104A (a) (4) and (b) (4) of the city's fee schedule to update fees which apply to Fixed sewer-only customers.

Background

When the Department of Water Management was formed in 2004, one of the first activities was to review and correctly identify sewer-only accounts to ensure the City was properly assessing charges. In addition to correcting the billing codes and classification, the department also implemented several control measures. One was to require director approval for the establishment of any new sewer-only account. Another was a process to ensure that annual affidavit/verification of the number of occupants necessary to establish the correct billing rate was implemented.

More recently, the Department of Water Management has implemented several strategies to strengthen the department's financial practices, focusing initially on billing and collections areas. Staff has worked with the Finance Department to develop a cross-departmental effort to collect seriously delinquent water and sewer accounts. In addition to enhancing the cut-off policies for both residential and non-residential water and sewer accounts, the departments developed a Memorandum of Understanding (MOU) outlining areas of responsibility for the collection of delinquent accounts. This jointly developed strategy also includes retaining the services of a collection agency to pursue collections beyond the capacity of the General Billing and Collections Division of Finance.

Cut-off policies and practices work well for active water/sewer accounts and water-only accounts. Currently there are 901 sewer-only accounts in the City and County. These accounts are billed just as other water and sewer accounts are billed, but because of the difficulty of disconnection, delinquencies for these accounts have not been actively pursued. At this time, approximately \$276,000 is owed to the City for active delinquent sewer-only accounts; 80% of this amount is greater than 181 days delinquent. There are 60 accounts with outstanding balances greater than \$1,0000 (monthly charges range between \$30.78 and \$77.06) and are greater than 365 days delinquent. Now that the Water Management and Finance departments have the MOU and collection agency in place, we are better positioned to aggressively pursue delinquent sewer-only accounts. To accomplish this, Water Management is proposing a two-step process:

- 1) The first step would be a coordinated effort between Customer Billing Services and General Billing & Collections to send an initial letter demanding payment in full to the City or negotiating alternative payment arrangements within 30 days. This letter would also explain the consequences of noncompliance. All customers not paying by the deadline would be receive follow-up contact from the City within the next 30 days.
- 2) If the customer does not respond to these efforts with full payment or setting up a payment plan, Water Management (WM) will proceed with the second step to discontinue the service.
 - a. For the initial disconnection:
 - i. WM-Water and Sewer Maintenance crews will install a valve and cleanout on the lateral at the location and leave a doorhanger for the customer outlining the reconnection process.
 - ii. The customer will be charged the full cost of installation as computed by WM administration; initial estimates are approximately \$1,000 for labor, materials and equipment. Costs will vary depending on the site.
 - b. Repeat disconnections (valve already installed):
 - i. Notice of disconnection from City if payment and/or arrangements not made within 30 days.
 - ii. Follow-up after 30 days.
 - iii. Valve crew closes valve at location and leaves doorhanger with instructions for reconnection process.
 - c. Re-establish Service:
 - i. Customers are charged the reconnection fee of \$250 each time.
 - ii. Valve crew opens valve and leaves doorhanger notification of service restoration.

This practice will be expensive and time consuming and therefore, costs will be passed on to the customer. Because discontinuing sewer service could be a public health issue and a minimum housing code violation, Water Management will also involve the Durham County Health Department and appropriate staff from Neighborhood Improvement Services and other City departments the resolution of these issues.

The department believes these steps are financially responsible and will continue to improve the financial position of the water and sewer fund. Staff also believes that once customers understand the significant costs of disconnection and reconnection and that the City is serious about taking action, they will pay the delinquent amounts or pursue the opportunity to set up payment plans.

In a related matter, during this year's water and sewer rate setting process, fees for fixed consumption charges for sewer-only customers located both inside and outside City were not updated using the fiscal year 2012 sewer consumption charges. The proposed ordinance will make this correction to the fee schedule.

Issues and Analysis

A well-managed utility should have a strong collection policy which precludes paying customers from subsidizing those that do not pay their bills. Although the number of customers that are affected by this policy is a relatively small percentage of the overall customer base, the City is nevertheless obligated by law to charge all users of the sewerage system equitably. Implementing the disconnection process for all customers ensures that a

consistent message is sent to all customers regarding the importance of timely payment for services.

It will be important to coordinate with the Durham County Health Department as we move forward in this initiative due to potential negative public health issues. While customers may find alternative sources of water for potable uses on an intermittent basis if service is terminated for non-payment that is not the case for sanitary sewer services. Staff will work closely with the Health Department to ensure that public health or the environment is not compromised by disconnecting services.

Alternatives

The alternatives are 1) implementing the program as outlined; 2) implementing the program but subsidizing the costs of discontinuing and restoring service; and 3) implementing the program without passing costs of service termination and restoration to the customer. Number one is the preferred alternative as it fully recovers the costs of implementing the program and the City receives maximum benefit from amounts collected. Other alternatives to sewer service termination such as debt setoff and collection agency action will also continue to be implemented, but by themselves may not produce noticeable results as quickly.

Financial Impact

Currently, approximately \$276,000 is owed to the City for active delinquent sewer-only accounts; 80% of this amount is greater than 181 days delinquent. Because these customers need sewer service, the City has sufficient opportunity to recover funds that will slow the rate of increases for paying customers.

SDBE Summary

N/A